



OCT 31 2019

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Mr. Ruben Villarreal  
Executive Director  
La Joya Housing Authority  
945 S. Leo Ave  
La Joya, TX 78560

SUBJECT: La Joya Housing Authority, TX448, Schedule of Findings and Questioned Costs,  
December 31, 2018  
Smith Marion and Company, LLP

Dear Mr. Villarreal:

On June 11, 2019, the Real Estate Assessment Center's (REAC's) Financial Assessment Subsystem (FASS) received La Joya Housing Authority's (LJHA) audited financial data submission for the December 31, 2018 fiscal year end (FYE). The audit was conducted by Smith Marion and Company, LLP. The auditor issued **ten** Findings. To ensure the appropriate corrective actions are implemented, we are sustaining the findings listed in this Management Decision Letter (MDL). If subsequent information demonstrates additional administrative actions are warranted by HUD, they will be implemented.

Prior audit findings **2017-01, 2017-02, 2017-03, 2017-04, 2017-06, 2017-07, 2017-08 and 2017-09** have been consolidated in this letter and depicted below as **Repeat Findings**.

**Finding 2018-001 - Segregation of Duties and Fraud, Waste and Abuse Material Weakness and Material Noncompliance (Repeat Finding 2017-001)**

The Auditor reported:

The present system of internal accounting controls is not documented in any type of policy or handbook. We documented multiple instances of the controls failing and being overridden by management resulting in one individual writing, signing and depositing checks. \$7,500 of funds transferred from Section 8 program and \$12,000 of funds transferred from Public Housing program to the Blended Component Unit (Nonprofit Corporation). Several factors appear to have contributed to the above described issue. A lack of documentation, training, and enforcement as well as missing critical control environment related controls have led to this condition.

Auditor's Recommendation:

We recommend that the Authority update the policy and handbooks to document the segregation of duties as well as implement training and monitoring plans.

Corrective Action:

Within 30 days from the date of this letter, please submit a copy of the PHA's section of its internal controls policy and chapter or section of its internal controls handbook which details or documents the segregation of duties in the performance of function by staff. Also, provide evidence showing \$7,500 of Section 8 program funds and \$12,000 of Public Housing program funds transferred to the Nonprofit Corporation are restored back to their respective program accounts. Please provide a copy of the Board's Resolution which documents the action the Board will take to address this Finding.

**Finding 2018-002 - Tenant Accounts Receivable/Write-Offs, Significant Deficiency (Repeat Finding 2017-002)**

The Auditor reported:

We noted in 2017 that tenant balances for evicted and current tenants at month end were written off directly to the tenant revenue accounts. The 2018 detail general ledger lacked details, on a monthly basis, to determine if the write offs were directly to the rental income however, with the lack of a bad debt expense, we concluded this practice is on-going. Tenant revenue and bad debt expense are understated while tenant account receivables are overstated. There is a general lack of higher-level fiscal management and oversight, leading to a deficiency of GAAP and industry knowledge key for an effective accounting system.

Auditor's Recommendation:

We recommend that the Authority place greater emphasis on collection of all outstanding balances. In addition, the Authority must ensure that all collection write offs be recorded as a bad debt expense and not against the tenant rental income.

Corrective Action:

Please note that uncollectible tenant rent cannot be written-off directly against tenant revenue accounts and should only be recorded against the expense account. Within 30 days from the date of this letter, please explain why the PHA has used this method of accounting for tenant bad debts and what corrective action the PHA is taking to properly account for tenant bad debts. Also, please provide a copy of the Board's Resolution which documents the action the Board will take to address this Finding.

**Finding 2018-003 - SEMAP Supporting Documentation, Material Non-Compliance (Repeat Finding 2017-003)**

A SEMAP Assessment was completed in April 2019. This Finding is being cleared as it is being tracked under the SEMAP Corrective Action Plan.

**Finding 2018-004 - Timecard Maintenance, Significant Deficiency (Repeat Finding 2017-004)**

The Auditor reported:

During our audit procedures, we noted hourly employees did not keep a record of hours worked, no time sheet or timecard, nor do they or a supervisor attest to the hours work in 2017. The employees began keeping time sheets in mid-2018 however the supervisor was still not reviewing and approving over-time or time sheets. The Authority was not in compliance with federal labor regulations regarding record maintenance. Additionally, the Authority has the potential for risks associated with the following:

- Hours or pay period may be inaccurately entered. Payment for time not worked will result in overstatement of expenditures incurred or an unrecorded liability for time worked but not paid, and
- Employee may not properly report leave taken. Typically, annual leave balances are paid to employees upon separation. If an employee does not report leave taken, the government may pay for time not worked and leave not owed,

Auditor's Recommendation:

We recommend that the Authority require employees complete time sheets for submission to payroll. The employee should sign the time sheet certifying the time recorded was actually worked. The employee's supervisor should approve the time sheet. The supervisor's approval serves as authorization to pay the employee. The supervisor's signature certifies the employee actually worked the time recorded. In addition, time sheets should indicate any leave taken.



Corrective Action:

Within 30 days from the date of this letter, please provide a sample of copies of recent time sheets or cards as evidence they are being submitted and signed by the employee and approved by a supervisor. Also, please provide a copy of the Board's Resolution which documents the action the Board will take to address this Finding.

**Finding 2018-005 - Public Housing Waiting List Tenant Selection and Fraud, Waste and Abuse  
Material Weakness and Material Noncompliance - New Finding**

The Auditor reported:

During the course of the audit, we were informed of fraudulent activity that involved several Public Housing Tenants who were selected from the wait list out of order as "political favors" and the employees were instructed by the previous Executive Director to select tenants that did not comply with the criteria listed above. The above condition resulted in the Authority being out of compliance with federal regulations. The condition was caused by an ineffective control environment led by management override of control processes. The staff we spoke to indicated they feared for their job security and knowingly violated federal regulations.

Auditor's Recommendation:

We recommend that the governing body encourage employees utilize available communication channels, such as the HUD hotline and Office of Inspector General hotline when they are asked to knowingly violate federal regulations.

Corrective Action:

Within 30 days from the date of this letter, please provide an explanation as to what corrective action(s) the Board is taking to prevent this type of Fraud, Waste, and Abuse from taking place in the future. Also, please provide a copy of the Board's Resolution which documents the action the Board will take to address this Finding.

**Finding 2018-006 - Board Minutes, Material Noncompliance (Repeat Finding 2017-006)**

The Auditor reported:

We were unable to obtain a copy of the minutes for the entire year and also any meeting after December 31, 2017 to the date of our report were not available for review. There is no assurance regarding the discussions that may have taken place at the meetings of the committee and, likewise, no assurance regarding official actions of the committee that may have had a financial impact. Additionally, the Authority is out of compliance with both federal and state requirements.

Auditor's Recommendation:

We recommend board minutes be produced on paper as well as retained in electronic format that is periodically backed-up. Adequate and reliable systems of IT information are critically important to ensure that business operations can continue on an uninterrupted basis and records are properly maintained.

Corrective Action:

Within 30 days from the date of this letter, please provide copies of the Board Minutes for the last six months of the PHA's current fiscal year end. Provide evidence showing the Board Minutes are also being retained and backed-up in electronic format. Also, please provide a copy of the Board's Resolution which documents the action the Board will take to address this Finding.

**Finding 2018-007 – Material Non-Compliance, Special Test and Provisions - Housing Quality Standards Inspection/HQS Enforcement (Repeat Finding 2017-007)**

An SEMAP Assessment was completed in April 2019. This Finding is being cleared as it is being tracked under the SEMAP Corrective Action Plan.

**Finding 2018-008 - Allowable Costs/Cost Principles, Material Weakness (Repeat Finding 2017-008)**

The Auditor reported:

We noted multiple instances in which proper supporting documentation was not maintained for expenses to the Federal programs. Additionally, we noted payments being made on costs that would be deemed unallowable as well as unreasonable. Specific items that we deemed unallowable were alcoholic beverages reimbursed by federal program to employee/board members. Specific items that we deemed unreasonable, and areas of waste and/or abuse, occurred when several meals were on a receipt that was reimbursed to a single board member with no documentation on who the other meals were for, it was unclear if it was another board member or family members or spouses. In addition, these individuals received per diem amounts for attending conference with no documented plan. Certain costs paid for by the Authority with federal funds violate federal regulations and consequently could be disallowed by HUD which would require repayment from non-federal sources.

Auditor's Recommendation:

We recommend that the Authority implement a system of controls to only pay expenses that are both allowable and properly documented in accordance with Uniformed Guidance and Governmental Auditing Standards.

Corrective Action:

Within 30 days from the date of this letter, please provide the system of controls implemented by the Authority to ensure that only expenses that are allowable and properly documented are paid or reimbursed to employees and Board members. Provide a copy of the Travel Policy that was adopted by the Board. In addition, provide evidence that employees and Board members repaid excess per-diem as described above. Also, please provide a copy of the Board's Resolution which documents the action the Board will take to address this Finding.

**Finding 2018-009 - Federal Procurement of Construction Contracts, Material Noncompliance (Repeat Finding 2017-009)**

The Auditor reported:

The Authority has no documented procurement policy in place. Material construction contracts are lacking documentation of adherence to Federal Procurement Standards. Personnel responsible for overseeing the procurement process were not informed of Federal requirement and no internal controls were in place to ensure compliance.

Auditor's Recommendation:

We recommend that Management receive training and implement procedures to ensure compliance with the above regulations as it relates to procurements utilizing Federal funds.

Corrective Action:

Within 30 days from the date of this letter, provide supporting documentation showing management staff have received training in procurement procedures, and a sample copy of the PHA's procurement policy as approved by the Board. Also, please provide a copy of the Board's Resolution which documents the action the Board will take to address this Finding.



**Finding 2018-010 – Material Weakness and Material Non-Compliance, Special Test and Provisions – Utilities Allowance Calculation**

A SEMAP Assessment was completed in April 2019. This Finding is being cleared as it is being tracked under the SEMAP Corrective Action Plan.

Upon receipt, we will review your response and make further decisions or recommendations as appropriate. If you disagree with the requested corrective action and/or time frame, please respond with an explanation and documentation in support of your position. Please note that findings cannot be appealed through this process. Should you have any questions or concerns please contact Marcelo M. Barron, Financial Analyst, at (210) 475-6808.

Sincerely,



David Pohler  
Director  
Office of Public Housing

cc:

Mrs Sylvia Garces-Valdez, Board Chair  
Mr. Jorge, Bazan, Commissioner  
Mr. John Pena, Commissioner  
Mr. German Reyna, Commissioner  
Mr. Jose Salinas, Commissioner  
The Honorable Adolfo "Fito" Salinas, Mayor

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